



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Edelen Releases Audit of Scott County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Scott County Fiscal Court for the fiscal year ended June 30, 2011. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

- **The jailer needs to improve payroll procedures.** Employees from all departments were selected to review their timesheets and recalculate withholdings and earnings. The following non-compliances were noted during the review of timesheets for jail employees:
 - Compensatory time was taken by hourly employees at the jail. However, the county does not have a policy allowing compensatory time to be earned.
 - Hours worked per timesheets did not agree to hours paid.

Jail employees fill out a timesheet each pay period. Their time is then transferred to a summary sheet which is submitted to the treasurer to process payroll. Auditor noted that one employee showed "comp time" taken off for three days in March 2011, but on the timesheet submitted to the treasurer, eight hours was recorded as time worked each day. The jailer was not able to provide an explanation for the discrepancy other than he and other personnel at the jail were not

aware that hourly employees were not allowed to earn compensatory time. In addition, auditor noted that compensatory time was not being tracked by anyone at the jail, but was used on the “honor” system. Vacation and sick leave balances are maintained and tracked by the personnel officer, but jail employees were not showing comp time on timesheets submitted to fiscal court. Therefore, these balances were not tracked.

Auditors also found one timesheet (maintained at the jail) that did not agree to the summary sheet submitted to the treasurer. Although the timesheet was signed by the employee’s supervisor, the error was not caught. In addition, timesheets for two jail employees contained hours that did not appear to be worked because the additional hours were not reflected as an increase to time in or time out nor reflected in regular hours worked for the day. These additional hours were noted as “per Larry” on the timesheets. Per discussion with the jailer, he did not know why these employees would make that notation because he did not remember asking them to work additional hours. Other instances of overtime worked was properly shown as an increase to time in or time out. Only additional hours noted as “per Larry” were not properly reflected on timesheets.

We recommend the jailer ensure employees comply with the county’s policy regarding overtime hours and pay. In addition, the jailer should verify that hours worked per timesheets agree to hours submitted to the fiscal court for payment. The jailer should document his review of this by signing the summary sheet turned into the treasurer to process payroll.

Jailer Larry Covington’s response: Operations Manager Michael Humphrey was advised in July 2011 by Vounty Treasurer Jane Lucas that county employees working at an hourly rate are not eligible to earn or use compensatory time. We were not aware of this standard, and we allowed compensatory time on a very limited basis over the past several years. When notified of the regulation, we changed our policy to cease the accrual and usage of compensatory time for all hourly wage staff, effective Jul. 11th, 2011. Staff who had compensatory time had their timesheets reviewed and were paid overtime for any hours that was outstanding which they had worked. Additionally, we have implemented changes to how we prepare our summary time sheets for the County Treasurer. Supervisors maintain time sheets for staff under their supervision. They note any approved absences and overtime and the justification for same. The individual staff time sheet is checked and verified by an administrative assistant who then fills out the official summary time sheet for the Treasurer’s office. The employee further signs that the time recorded is accurate. Operations Manager Humphrey and I (the Jailer) review the completed time sheets for accuracy and justification of overtime. Both of us further sign the time sheets after final review. We believe that we have followed all recommendations made by the Office of Auditor of Public Accounts for this section and feel that this particular issue is resolved and will be demonstrated as such in the audit of our next fiscal year.

- **The jailer should implement effective internal controls to ensure receipts are properly recorded and deposited timely.**

During receipt testing, the following weaknesses were noted:

- Three-part receipts were not being issued;
- Daily receipts were not batched or maintained;
- No daily checkout sheets were prepared – thus, no comparison was made to the daily deposit;

- Inadequate review of cash receipts by management;

Good internal controls promote good business practices providing reasonable assurance that financial records and reports are accurate. The lack of effective internal controls increases the risk that errors and/or fraud are detected late or possibly remain undetected. In addition, KRS 68.210 and the Department for Local Government budget manual provide minimum bookkeeping requirements for all local government officials. Based on these guidelines and the weaknesses noted above, we are making the following recommendations:

- The jail should utilize pre-numbered, 3 part receipt forms for all receipts, in which the inmate will get the original, the individual posting to their account will get a copy (if applicable), and a copy is maintained in the jails records attached to the daily checkout sheet.
- All receipts should be batched daily and matched to the deposit slip.
- All receipts should be posted to a detailed daily checkout sheet indicating which receipt category the receipts are to be applied to.
- All receipts should be deposited daily.

Jailer Larry Covington's response: We have made use of three part receipt forms for booking fees and bond fees. I have instructed staff to cease using two part receipt forms and to start making use of three part receipts as soon as possible for every financial transaction that we make. We will adopt the other recommendations as provided by your office regarding the development and usage of a daily check out sheet, and maintaining daily receipts and batching them together and filing them. I will further personally review the cash receipts regularly and delegate a command or administrative staff member to make bank deposits daily. We have implemented several forms to track these transactions, and have attached these for your review and further guidance and recommendations.

• **The jail lacks adequate internal controls over receipts, expenditures, and reconciliations.** During the review of procedures at the jail, it was noted that the same individuals who were primarily responsible for receiving and recording receipts, also ordered and received goods, prepared disbursement checks, signed checks (being the only signature), and was responsible for reconciliation of the accounts. Per discussion with agency personnel and review of bank statements, monthly reconciliations were not performed. In addition, no approvals were required for purchases and there was no supervisory review of disbursements or reconciliations.

The implementation of internal controls, such as the segregation of duties over receipts and disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

To adequately protect employees in the normal course of performing their duties, and/or prevent inaccurate financial reporting or misappropriation of assets, we are recommending that the jailer implement strong oversight over these areas, either by an employee independent of those functions or by the jailer, such as:

- Require the preparation of a daily checkout sheet for receipts. All receipts should be batched and maintained with the daily checkout sheet. The Jailer should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The review should be documented by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- Periodically perform surprise cash counts and recount cash. This should be documented by initialing the deposit ticket.
- Require dual signatures on all disbursement checks.
- Require prior approval for all purchases, with this approval documented by a signature on the associated purchase order.

Require reconciliations of the accounts monthly. The jailer should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.

Jailer Larry Covington's response: In addition to myself, we have three command/administrative staff members. The number of staff to complete all the administrative tasks required is a small number. It is my plan to review our process of ordering supplies, equipment, and services for the facility. We plan to develop and maintain a standard form listing all transactions for purchases in the form of a summary sheet. It is my intention to personally review daily checkout sheets for receipts regularly and to take any appropriate corrective action(s) as necessary. I have ordered two additional persons to be able to sign checks for financial transactions at our two banks. We will go to a system requiring two signatures on each check as recommended. It is my understanding that we have been reconciling our accounts monthly as of August 2011. I state my intention to fully adopt the recommendations of the Office of Public Accounts regarding these matters.

- **The jailer should properly account for all expenditures.** During testing of expenditures of the jail commissary, supporting documentation for 3 of the 8 transactions tested could not be located. Without proper supporting documentation, the allowability of the transaction cannot be determined. In addition, auditors were unable to locate a TV purchased with jail commissary funds. Jail personnel did not maintain an asset listing noting the asset nor its location.

Without adequate tracking of purchases, the risk of fraud increases. We recommend the jailer ensure all invoices are maintained for all expenditures and all assets purchased are accounted for properly. All expenditures should be reviewed and approved by a supervisor or the jailer. By expenditures being reviewed and approved by a supervisor, in addition to maintaining proper support, the risk of impropriety is reduced.

Jailer Larry Covington's response: Most of the bills that we incur at our facility are directly paid for by the Scott County Fiscal Court. I have instructed staff to develop and maintain a ledger to list and track all purchase order numbers with the name of the company we receive goods or services from, the date, and the amount. I will review all purchase orders in this manner. We further plan to develop a similar purchase and review process for our "Canteen Account". We acknowledge that we are unable to locate one television by its serial number, and I am as concerned about this item as the auditors. For this reason, I have instructed staff to prepare a detailed inventory of equipment and property used and maintained by the facility and to include

serial numbers and location(s) where ever possible. Knowing what we actually have on hand is the first step in determining future needs and to be able to account for property owned by the County and its citizens. We will have multiple staff members involved when purchases are of significant financial value.

The jailer should account for unclaimed inmate receipts in accordance with KRS 393.066.

Per discussion with jail employees, if an inmate still has funds on their books upon their release, a refund is issued by either giving the inmate a refund check at their release or by mailing a check to the inmate at their last known address. If a mailed refund is returned and goes unclaimed, the funds are re-deposited into the bank account.

Per KRS 393.066, "All intangible personal property and any income or increment thereon, held in a fiduciary capacity for the benefit of another person is presumed abandoned unless the owner has, within three (3) years after it becomes payable or distributable, increased or decreased the principal, accepted payment of principal or income, corresponded in writing concerning the property, or otherwise indicated an interest as evidenced by a memorandum on file with the fiduciary:

- (1) If the property is held by a banking organization or a financial organization, or by a business association organized under the laws of or created in this state; or
- (2) If it is held by a business association doing business in this state, or any agent or fiduciary acting for or under contract with a business association doing business in this state, but not organized under the laws of or created in this state, and the records of the business association indicate that the last known address of the person entitled thereto is in this state; or
- (3) If it is held in this state by any other person."

In order to be in compliance with KRS 393.066, we recommend that the jailer account for and keep track of these former inmates' funds separately from other inmates' funds, recording who the funds belong to, and the amounts of the funds belonging to each former inmate.

In addition, the jailer must retain these funds for a period of three years from the date these funds were available to be paid to the former inmates.

If, after three years of retaining these funds, the rightful owners of the funds have not claimed the funds and the funds remain unclaimed, the funds at that time are "presumed abandoned."

Once these funds are "presumed abandoned" after three years of remaining unclaimed by the former inmates, the jailer as the "holder" and "fiduciary" must file a report concerning the funds with the Kentucky state treasurer. The jailer must also remit the unclaimed funds at this time to the state treasurer along with this report. There is also a requirement to try to notify the owners of the funds one more time, at their last known address.

Jailer Larry Covington's response: I would like to state for the record that the account in question is our "Inmate Account". From the time that I have served as Scott County's elected Jailer I can advise that all money we collected from our inmate population upon their entering has been placed in this one account. When a person leaves our custody, we traditionally have either issued a check to them at the time they leave or we mail a check to them at their last known residence. If we are unable to locate them, we have in the past left the

money in the general inmate account fund. The money that has been spent from this account has been used solely for lawful purposes for inmates in our population. We were not aware that such money was required to be sent to the Kentucky State Treasurer after three years if we are unable to locate them until this audit. I will immediately cause our practices to adhere to the requirements as set forth by KRS 393.066. It is our intention to open a separate account at a financial institution in which we will deposit, maintain, and disburse monies held for past inmates who we are unable to contact in accordance with law. We will review our past records and make this change as recommended by the Office of Public Accounts as stated by applicable law. I would like to personally thank the auditors for bringing this issue to my attention.

This report, in its entirety, can be accessed on the Internet at the following site: [here](#).

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